

Co-operation" in which we undertook "to co-operate in all respects practicable.....to the end that the economic affairs of the two countries be co-ordinated for the common defence, and that the production and resources of both countries be used for the best combined results." This was, in effect, an extension of the Hyde Park Agreement of 1941, which was of such importance during World War II.

Canadians immediately set themselves a defence production objective and launched a three-year \$5 billion defence programme, which would be roughly comparable to \$75 to \$100 billions in United States terms. To help keep in check the inevitable pressures of a defence programme of this magnitude super-imposed on an already expanding economy, Canada adopted economic policies somewhat different from those followed in the United States. While in your country extensive systems of priorities and controls were set up, Canada placed its main reliance on indirect controls. However, legislation was put on our statute books which would have permitted a much more extensive system of direct controls than was actually installed.

To accomplish the same ends as your price, wage and salary controls and your Controlled Materials Plan for steel and other materials vital to defence production, we used such indirect measures as accelerated depreciation allowances for taxation purposes in order to encourage expansion in essential industries. We were, I believe, the first country to use the opposite device -- a scheme of deferred depreciation -- to discourage capital expenditures of low priority. Under this plan, depreciation allowances were simply postponed for four years, thus placing a short term financial penalty on investment of a less essential nature -- but, and this is significant, not prohibiting it.

Unessential consumer and business spending were discouraged -- but again not forbidden -- through such indirect measures as a 20 per cent surcharge on corporation and personal incomes; special excise taxes on consumer durable goods that diverted materials and skills from defence production; and an increase of 2 per cent in our sales tax which is levied on most commodities except foods, fuels and building materials.

The significant thing about these differences in economic policy is not the way in which we differ from one another but that we both substantially achieved our objectives of fortifying the defensive strength of our economies and achieving shifts in resources and manpower allocation with a minimum of hardship and as little disturbance as possible to existing business-consumer relations. The speed and success with which our two countries reacted first to the demands of post-war reconversion and then to rearmament after the outbreak of war in Korea, testifies to the vigour and flexibility of our economies.

The Need For Social Measures

The second great concern of government has to do with the human problems of the individual citizen. In democratic societies, our concept is not just to build business but to give opportunity to produce and to share in the fruits of production to all our people. A country's gross national product is, after all, nothing more than the sum total of the prosperity of millions of ordinary people.